

**BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS & QUESTIONED COSTS
CITY OF HAWARDEN, IOWA
FOR THE
FISCAL YEAR ENDED JUNE 30, 2007**

**Prepared by
Office of the City Clerk
Jason Metten, City Administrator/City Clerk
and Sharole Rens, Deputy City Clerk/Director of Finance**

**CITY OF HAWARDEN
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007
TABLE OF CONTENTS**

	Page
Directory of City Officials	1
Independent Auditors' Report	2 – 3
Management's Discussion and Analysis	4 – 13
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Assets	14
Statement of Activities	15 – 16
FUND FINANCIAL STATEMENTS	
Governmental Funds Financial Statements	
Balance Sheet	17 – 18
Reconciliation of the Balance Sheet to the Statement of Net Assets	19
Statement of Revenues, Expenditures and Changes in Fund Balances	20 – 21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	22
Proprietary Funds Financial Statements	
Combining Statement of Net Assets	23 – 24
Combining Statement of Revenues, Expenses and Changes in Net Assets	25 – 26
Combining Statement of Cash Flows	27 – 30
Fiduciary Funds Financial Statements	
Statement of Fiduciary Net Assets	31
Statement of Changes in Fiduciary Net Assets	32
Notes to Financial Statements	33 – 53
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – Total Reporting Entity	54 – 57

CITY OF HAWARDEN, IOWA
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007
TABLE OF CONTENTS

FINANCIAL SECTION – (CONTINUED)

	Page
<hr/>	
Other Supplementary Information	
Governmental Non-Major Funds Combining Financial Statements	
Balance Sheet.....	58 – 59
Statement of Revenues, Expenditures and Changes in Fund Balances.....	60 – 61
Fiduciary Funds Combining Financial Statements	
Statement of Net Assets	62
Statement of Changes in Assets and Liabilities	63
Schedule of Findings	64 – 65
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66 – 67

* * * *

CITY OF HAWARDEN, IOWA
Directory of City Officials
as of June 30, 2007

Elected City Officers

Ricard Porter - Mayor

Council Members:

Mike Cauwels (2007)
Robert Borchers (2007)
Patty Anderson (2009)
Kody Hedden (2009)
George Jacobs (2009)

Hospital Trustees:

Glea Hamik
Matt Hummel
Pam Harvey
Mary Jacobs
Rick Reinking

Appointed City Officers

Jason Metten – City Administrator/City Clerk/ Telecommunications Director
Spencer Haacke – Economic Development Director
Sharole Rens – Director of Finance/Deputy City Clerk
Jim Pickner – City Attorney
Tom Kane – Director of Public Works
Mike DeBruin – Chief of Police
Jami Dekkers – Activity Director
Valerie Haverhals – Librarian
Jerry Wilson, EMS Director

Appointed Boards and Commissions

Library Board of Trustees:

Tony Lauters -Chairman
Teri Kallsen – Vice-Chairman
Lois Jean Dawson
Kay Scroggs
Mark Weyer

Planning and Zoning Commission:

Lloyd Younkin
Lloyd Strong, Jr.
Harold Pry
Mike Wiggins
Virginia Moothart
Carol Frerichs
Jerry Jensen

Board of Zoning Adjustment:

William Salker - Chairman
Julie Miller
Jack Andela
Arvin Kitchenmaster
John Polifka

Park Board:

John Blankenship
Duane Schiefen
Jerrod Lynott
Jim Kinney
Elaine Kane

INDEPENDENT AUDITORS' REPORT

The Honorable Members of the City Council
City of Hawarden, Iowa:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the CITY OF HAWARDEN, IOWA (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Hawarden Municipal Hospital, (a discretely presented component unit), which statements reflect total assets of \$4,090,872 and total operating revenues of \$4,741,844 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for the Hawarden Municipal Hospital, is based solely on the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the U.S. Comptroller General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hawarden, Iowa as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 13 and 54 through 57, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hawarden, Iowa's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Williams & Company, P.C.
Certified Public Accountants

October 15, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

As management of the City of Hawarden, we offer readers of the City of Hawarden's financial statements this narrative overview and analysis of the financial activities of the City of Hawarden for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information contained within the City's financial statements that follow this report, as well as the separately issued financial statements of the Hawarden Community Hospital, a discretely presented component unit of the City.

Financial Highlights

- The assets of the City of Hawarden exceeded liabilities at June 30, 2007 by \$14,193,107. Of this amount, \$4,790,081 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets decreased \$26,614 during the year. Of this amount, the assets of our Governmental Activities increased \$170,746 and the assets of our Business Activities decreased \$197,360.
- The City's long-term debt (notes and bonds) decreased \$103,000 due to scheduled debt service payments. This amount is lower than previous years due to the issuance of \$432,000 of General Obligation Bonds for the 2007 Street Project. Outstanding General Obligation debt totals \$1,272,000. Outstanding Revenue Bond Debt totals \$2,695,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Hawarden's basic financial statements which consist of a series of financial statements comprised of three components: 1) The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. 2) Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government. 3) An additional part of the basic financial statements are the Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

REPORTING THE CITY AS WHOLE

The Statement of Net Assets and the Statement of Activities

The government-wide statements report information about the City as a whole using accounting methods similar to those used by the private sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by the private-sector companies. These two statements report the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors, such as changes in the City's property tax base and sales tax collections and condition of the City's infrastructure, are also important in making this determination.

In the Statement of Net Assets and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, such as Police, Fire, Public Works, Parks, and Recreation departments, and general administration. Property Taxes and state and federal grants finance most of these activities.
- **Business Type Activities** – The City charges fees to customers to cover the cost of these services. Included here are the City Electric, Water, Sewer, Natural Gas, City Telephone, and Cable/High Speed Internet.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by State law or by bond requirements. The City Council also established funds to control and manage money for particular purposes (such as construction projects) and to show that it is properly using certain revenues (such as Sales Tax Revenues). The City has the following types of funds:

- **Governmental Funds** – Most of the City's basic services are included in Governmental Funds, which focus on how money moves into and out of these funds and the balances left at year-end are available for spending. These funds are reported using a modified accrual basis of accounting, which measures cash

and all other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the City's general governmental operations and basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship between Governmental Activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Funds in a reconciliation following each Governmental Fund financial statement.

- **Proprietary Funds** – When the City charges customers for the service it provides, these services are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the Proprietary Funds report and the Business Type Activities report in the government-wide statements is the detail and additional information, such as cash flows, provided in the Proprietary Funds report.

THE CITY AS TRUSTEE

Reporting the City's Fiduciary Responsibilities

Fiduciary Funds are used to account for resources held for the benefit of parties outside the City government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found behind the Fiduciary Funds statements.

THE CITY AS A WHOLE

As stated earlier, net assets may serve over time as a useful indicator of a government's financial position. The largest part of the City's net assets reflects its investment in capital assets (land, buildings and improvements, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from the other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

For the year ended June 30, 2007, net assets changed as follows:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 2,969,092	\$ 2,607,982	\$4,821,953	\$ 4,892,596	\$ 7,791,045	\$ 7,500,578
Capital Assets	8,855,573	8,930,037	3,041,537	3,522,121	11,897,110	12,452,158
Total Assets	11,824,665	11,538,019	7,863,490	8,414,717	19,688,155	19,952,736
Long-term Liabilities Outstanding	1,425,377	1,311,749	2,460,452	2,719,516	3,885,829	4,031,265
Other Liabilities	1,050,025	1,047,753	559,194	653,997	1,609,219	1,701,750
Total Liabilities	2,475,402	2,359,502	3,019,646	3,373,513	5,495,048	5,733,015
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	7,583,573	7,805,037	346,537	577,121	7,930,110	8,382,158
Restricted	201,469	196,877	1,271,447	1,068,986	1,472,916	1,238,863
Unrestricted	1,564,221	1,176,603	3,225,860	3,395,097	4,790,081	4,571,700
Total Net Assets	\$ 9,349,263	\$ 9,178,517	\$4,843,844	\$ 5,041,204	\$ 14,193,107	\$ 14,219,721

The government's net assets decreased by \$26,614 during the current fiscal year. Reasons for the decrease of the government's net assets are higher wholesale utility rates as well as cash reserves used to complete a new switchgear facility for the electric utility. This summary reflects an increase of total net assets by 1.8% for the Governmental Activities and a decrease of 3.9% in the Business-Type Activities.

Total Revenue and Expenses and changes in Net Assets reported in Fiscal 2007 as compared to Fiscal 2006 are shown in the chart below.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for Services	\$ 315,700	\$ 341,380	\$ 5,422,560	\$ 5,248,172	\$ 5,738,260	\$ 5,589,552
Operating Grants & Contributions	26,523	27,967	-	-	26,523	27,967
Capital Grants & Contributions	195,764	539,106	-	-	195,764	539,106
General Revenues:						
Property Taxes	895,892	836,923	-	-	895,892	836,923
Other Taxes	238,350	223,450	-	-	238,350	223,450
Other	366,985	350,045	186,917	282,978	553,902	633,023
Total Revenues	\$ 2,039,214	\$ 2,318,871	\$ 5,609,477	\$ 5,531,150	\$ 7,648,691	\$ 7,850,021

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Expenses:						
General Government	\$ 108,307	\$ 115,824	-	-	\$ 108,307	\$ 115,824
Public Safety	524,993	497,644	-	-	524,993	497,644
Public Works	466,822	441,695	-	-	466,822	441,695
Health & Welfare	239,645	224,745	-	-	239,645	224,745
Culture & Recreation	452,246	406,069	-	-	452,246	406,069
Community and Economic Development	383,126	468,329	-	-	383,126	468,329
Capital Projects	-	-	-	-	-	-
Debt Service	77,329	90,490	-	-	77,329	90,490
Water Utility	-	-	\$ 294,049	\$ 262,662	294,049	262,662
Waste Water Utility	-	-	315,530	306,379	315,530	306,379
Electric Utility	-	-	2,018,495	2,127,674	2,018,495	2,127,674
Gas Utility	-	-	1,430,129	1,418,493	1,430,129	1,418,493
Solid Waste Utility	-	-	157,630	155,705	157,630	155,705
Telephone Utility	-	-	875,078	860,773	875,078	860,773
Cable/Internet Utility	-	-	331,926	333,305	331,926	333,305
Total Expenses	2,252,468	2,244,796	5,422,837	5,464,991	7,675,305	7,709,787
Increase (Decrease) in Net Assets Before Transfers	(213,254)	74,075	186,640	66,159	(26,614)	140,234
Transfers	384,000	387,000	(384,000)	(387,000)	-	-
Increase (Decrease) in Net Assets	170,746	461,075	(197,360)	(320,841)	(26,614)	140,234
Net Assets July 1	9,178,517	8,717,442	5,041,204	5,362,045	14,219,721	14,461,635
Net Assets June 30	\$ 9,349,263	\$ 9,178,517	\$ 4,843,844	\$ 5,041,204	\$14,193,107	\$ 14,219,721

Program revenues totaled \$5,960,547 for fiscal year 2007 compared to \$6,156,625 for fiscal year 2006. Governmental Activities provided \$537,987 and Business-Type Activities provided \$5,422,560. Revenue collected for Charges for Services during fiscal year 2007 was \$5,738,260, accounting for 96.2% of the total program revenues.

General Revenues for fiscal year 2007 totaled \$1,688,144. Governmental Activities provided \$1,501,227 and Business-Type Activities provided \$186,917. Property Tax Revenues for fiscal year 2007 totaled \$895,892 accounting for 53% of General Revenues.

Expenditures for fiscal year 2007 totaled \$7,675,305. Expenditures for General Governmental Activities totaled \$2,252,468, accounting for 29.3% of total expenditures. Business-Type Activity expenditures totaled \$5,422,837, for 70.7% of the total.

The following table shows the activities included within each program level:

<u>Program Level</u>	<u>Activity</u>
Public Safety	Individual & Community Protection, Physical Health
Public Works	Roadway Construction, Airport Operations, Street Lighting, Transportation Services
Culture and Recreation	Education & Culture, Leisure Time Opportunities

<u>Program Level</u>	<u>Activity</u>
Community and Economic Development	Economic Development, Community Beautification, Planning and Zoning
General Government.....	Administration, Support Services
Debt Service.....	Payment of Interest
Capital Projects	Construction of Capital Facilities
Water System.....	Operation of Water Treatment Plant/Supply Distribution System
Sewer System	Operation of the Waste Water Treatment Plant/Collection System
Electric System	Operation of Electric Distribution System
Natural Gas Utility	Operation of Natural Gas Distribution System
Solid Waste Utility	Oversight of Solid Waste Contract/Closed Landfill
Telephone Utility	Operation of Telephone Communication System
Cable/Internet Utility	Operation of Cable/Internet System

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Please note that the expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue calculation. This format highlights the respective financial burden that each of the functions place on the taxpayers. For example, for Public Safety, the City spent \$524,993 and received \$169,400 in revenue, thus leaving a cost to the taxpayer of \$355,593 to be funded by various methods. The format also identifies how much each function draws from general revenues or is self-financing through fees or grants. Some of the individual line item revenues reported for each function are:

Public Safety	Fines, Fees
Culture and Recreation	Fees, Donations, Grants
General Government	Licenses, Permits

The total cost of governmental activities this year was \$2,252,468. Of these costs, \$315,700 was paid by those who directly benefited from the programs. Costs paid by other governmental and organizations that subsidized certain programs with grants and contributions were \$222,287, leaving a Net Expense of \$1,714,481 for Governmental Activities. These expenses were covered with tax revenues, interest and other general revenues. The Statement of Activities in the financial statements provides further detail.

Total resources available during the year to finance governmental operations were \$11,601,731, consisting of Net Assets at July 1, 2006 of \$9,178,517, Program Revenues of \$537,987 and General Revenues and transfers of \$1,885,227. Total Governmental Activities during the year expended \$2,252,468; thus, Net Assets were increased by \$170,746, to \$9,349,263.

Business-Type Activities

Business-Type Activities decreased the City's net assets by \$197,360.

The cost of all Proprietary Activities this year was \$5,422,837. As shown in the Statement of Activities, the amounts paid by users of the systems was \$5,422,560, resulting in total Net Expense for Business-Type Activities of \$277.

Total resources available during the year to finance Proprietary Fund activities were \$10,266,681, consisting of Net Assets at July 1, 2006 of \$5,041,204, Program Revenues of \$5,422,560 and General Revenues and transfers of \$(197,083). Total Proprietary Fund Activities during the year expended \$5,422,837; thus Net Assets were decreased by \$197,360 to \$4,843,844.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of a fiscal year. The City's Governmental Funds reported combined ending fund balances of \$1,083,086. The combined Governmental Funds balance increased \$287,431 from the prior year. This increase would be accounted for primarily by higher interest rates and the completion of the Heart of Hawarden Community Improvement Project.

The General Fund is the primary operating fund of the City. During the year, expenditures were greater than revenues in the General fund by \$58,388. This amount is higher than 2006 when expenditures were less than revenue in the General fund by \$75,334. The TIF, Capital Projects Fund and Debt Service Funds saw very minimal changes during the year maintaining a fund balance consistent with recent years. In FY 2006 the Capital Projects Fund accumulated the funds necessary to complete the projects and in FY 2007 the projects were completed and the funds expended.

Budgetary Highlights

The following table shows the budget variances by program expenditure structure:

	Amended Budget	Actual Expenditures	Variance
Public Safety	\$ 513,162	\$ 500,257	\$ 12,905
Public Works	307,931	307,195	736
Culture and Recreation	408,066	386,542	21,524
Community and Economic Development	57,500	57,030	470
General Government	434,604	107,483	327,121
Health and Social Services	233,000	238,350	(5,350)
Debt Service	460,116	512,152	141,298
Capital Projects	653,450	368,103	92,013
Business Type Activities	10,626,704	10,243,954	382,750
Total Expenditures	\$ 13,694,533	\$ 12,721,066	\$ 973,467

Below is a brief recap of budget activity for the year:

- The total original revenue budget of \$14,726,826 was increased to \$15,014,326 (an increase of \$287,500). A substantial portion of this increase can be attributed to additional local option sales tax revenue.
- Intergovernmental revenue exceeded budget figures by \$475,245 due to grant proceeds from the State of Iowa for a housing rehabilitation program.
- Rate of interest on Investments exceeded budget figures by \$253,081 due to the City's policy annually requesting bids for banking services as well as an increase within the market.
- The total original expenditure and transfer budget of \$14,565,493 was increased to \$15,095,193 (an increase of \$529,700).
- The above amendments to budgets were related to appropriation for capital improvements and debt refinancing. Capital project expenses included the completion of the Fire Station/Public Works Street Department project and the completion of the Heart of Hawarden projects, among others. Expenditures fell below the revised budget projections by \$973,467. This is primarily due to over budgeting in the General Government function for administration expense corresponding to the utility functions, which was paid by the various utilities. The over expenditure in health and social services was due to larger than expected Local Option Sales Tax receipts, all of which is remitted to the City's hospital.

Capital Assets

The City's investment in capital assets, including land, buildings and improvements, equipment, streets, and other infrastructure represents the value of the resources utilized to provide services to our citizens. The investment in capital assets as of June 30, 2007, was \$7,930,110 (net of accumulated depreciation and outstanding financings) compared to \$8,382,158 as of June 30, 2006. The decrease can be accounted for in the completion of capital projects in the prior year, as well as less acquisitions in the current year allowing depreciation expense to exceed outlays. Another factor was the increased debt in the governmental funds. See Note 4 to the financial statements for more information on the City's capital assets.

DEBT ADMINISTRATION

At year-end, the City had \$3,967,000 of debt outstanding. Reduction of outstanding debt can be attributed to timely payment of required debt service. Other Debt administration is on track with over 75% of all City debt to be repaid within the next 10 years. This rapid repayment, when combined with the use of TIF revenue has allowed the City to maintain our good credit rating. This reflects well on our community.

The City continues to operate well under State debt capacity limitations. The State limits the amount of General Obligation Debt Outstanding to 5% of the assessed value of all taxable property in the community. Thus, our debt capacity is \$3,953,977. With outstanding General Obligation Debt applicable to this limit of \$1,272,000, we are

utilizing 32% of this limit. More detailed information on debt administration is provided in Note 5 of the financial statements.

ECONOMIC FACTORS

The City of Hawarden worked hard in FY 2006-2007 to maintain a progressive approach to growth and community development. During the year work proceeded on vertical infrastructure for a residential subdivision, capital projects continued as scheduled and the Comprehensive plan was updated.

Economically, the City works hard to attract new businesses and industry, while maintaining the quality of life residents have come to expect and enjoy. The former Sioux Empire Community College gymnasium, a large facility that had been vacant in recent years, will be the new home of Plasticology L.L.C.'s production and distribution facility. The firm has committed to providing 40 jobs within the next ten years as well as a twenty thousand square foot expansion of the existing facility.

In business and industry recruitment, the City of Hawarden made a large commitment by hiring a new Development Director and investing in his certification as a CEcD. The Development Director position will provide the City of Hawarden a full time focus on the business of business recruitment and retention. In addition, City of Hawarden has expanded its comprehensive marketing campaign to promote Hawarden in a professional light as well as get the community's name out to decision-makers around the world. Fiscal year 2008 will see the development of a virtual realtor to showcase available buildings as well as a personalized multimedia package that will be given to prospective new businesses.

Hawarden as a community made great strides this year in recruiting medical professionals to the community. The Hawarden Community Hospital has spent a great deal of energy to recruit a new doctor. Through the help of a search firm, staff and community members, the hospital and clinic interviewed several candidates and secured the services of Dr. Dale Nystrom.

Beautification projects continue to be a priority for the community. The City has applied for yet another \$300,000 Housing Rehabilitation Grant from IDED's Iowa Housing Fund for Fiscal Year 2008. Should the application prove successful, at least 10 homes of low-moderate income families will be rehabilitated by the end of calendar 2009, improving both their quality of life and the appearance of their homes. The City of Hawarden also increased their beautification efforts through enforcement of its Property Maintenance Code. In addition to dozens of successful requests to remove nuisance violations, four structures that met the statutory definition of "Unsafe" were demolished.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jason Metten or Sharole Rens at 712-551-2565.

CITY OF HAWARDEN, IOWA
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government		Component Unit	
	Governmental	Business-Type	Hawarden	Community
	Activities	Activities	Hospital	Hospital
			Total	
ASSETS				
Cash and Cash Equivalents	\$ 1,373,916	\$ 370,411	\$ 1,744,327	\$ 835,944
Investments	300,000	20,000	320,000	-
Receivables (Net, where applicable, of allowance for uncollectibles)				
Accounts	44,268	186,816	231,084	767,703
Taxes	17,409	-	17,409	-
Subsequent Year Taxes	914,285	-	914,285	-
Accrued Interest	11,441	25,620	37,061	-
Other	-	-	-	48,196
Estimated Unbilled Usage	-	177,631	177,631	-
Special Assessments	1,416	-	1,416	-
Pledges Receivable	37,500	-	37,500	-
Notes Receivable	152,442	-	152,442	-
Internal Balances	280,910	(280,910)	-	-
Advances to Other Funds	(430,779)	430,779	-	-
Due From Related Party	-	-	-	279,596
Due from Other Governmental Agencies	56,635	-	56,635	-
Inventories	-	417,188	417,188	66,527
Prepaid Assets	66,128	40,208	106,336	37,716
Investment in Joint Venture	-	879,444	879,444	-
Restricted Assets:				
Cash and Cash Equivalents- Council Restricted Plant Replacement	-	1,784,890	1,784,890	531,392
Cash and Cash Equivalents- Donor Restricted	-	-	-	211,138
Cash and Cash Equivalents - Bond Reserve	-	400,382	400,382	-
Investments- Donor Restricted	130,934	-	130,934	-
Investments - Council Restricted Plant Replacement	-	292,000	292,000	-
Customer Deposits	-	41,859	41,859	-
Bond Issue Costs	12,587	35,635	48,222	-
Land	473,625	56,094	529,719	7,000
Construction in Progress	19,750	-	19,750	44,222
Infrastructure, Property and Equipment, Net of Accumulated Depreciation (Note 4)	8,362,198	2,985,443	11,347,641	1,261,438
Total Assets	11,824,665	7,863,490	19,688,155	4,090,872
LIABILITIES				
Accounts Payable	28,749	194,613	223,362	1,050,253
Accounts Payable to Discretely Presented Component Unit	39,115	-	39,115	-
Accrued Wages	17,160	9,558	26,718	195,291
Accrued Expenses	438	4,527	4,965	48,881
Due to Other Governments	-	34,818	34,818	-
Accrued Postclosure Costs	-	5,440	5,440	-
Unearned Revenue	9,000	-	9,000	-
Deferred Revenue - Subsequent Year Taxes	914,285	-	914,285	-
Accrued Interest Payable	14,278	-	14,278	-
Payables from Restricted Assets:				
Customer Deposits	-	41,859	41,859	-
Accrued Revenue Bond Interest	-	8,379	8,379	-
Revenue Bonds Payable	-	260,000	260,000	-
Long-Term Liabilities:				
Due within one year:				
General Obligation Bonds	140,000	-	140,000	-
Notes Payable	6,526	-	6,526	76,828
Compensated Absences	2,794	2,545	5,339	-
Due in more than one year:				
Revenue Bonds Payable	-	2,435,000	2,435,000	-
General Obligation Bonds	1,132,000	-	1,132,000	-
Notes Payable	145,916	-	145,916	271,870
Compensated Absences and Benefits, Long-Term	25,141	22,907	48,048	-
Total Liabilities	2,475,402	3,019,646	5,495,048	1,643,123
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	7,583,573	346,537	7,930,110	963,962
Restricted for:				
Debt Service	42,099	-	42,099	-
Revenue Bonds	-	392,003	392,003	-
Investment in Joint Venture	-	879,444	879,444	-
Endowments:				
Expendable	28,436	-	28,436	150,944
Nonexpendable	130,934	-	130,934	96,123
Unrestricted	1,564,221	3,225,860	4,790,081	1,236,720
Total Net Assets	\$ 9,349,263	\$ 4,843,844	\$ 14,193,107	\$ 2,447,749

CITY OF HAWARDEN, IOWA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 524,993	\$ 169,400	\$ -	\$ -
Public Works	466,822	14,990	-	1
Health and Social Services	239,645	-	-	-
Culture and Recreation	452,246	60,977	26,523	34,609
Community and Economic Development	383,126	-	-	161,154
General Government	108,307	70,333	-	-
Interest Expense	77,329	-	-	-
Total governmental activities	<u>2,252,468</u>	<u>315,700</u>	<u>26,523</u>	<u>195,764</u>
Business-Type Activities:				
Water Utility	294,049	265,507		
WasteWater Treatment Utility	315,530	220,080		
Electric Utility	2,018,495	1,917,371		
Gas Utility	1,430,129	1,479,759		
Solid Waste Utility	157,630	161,683		
Telephone Utility	875,078	995,240		
Cable/Internet Utility	331,926	382,920		
Total Business-Type Activities:	<u>5,422,837</u>	<u>5,422,560</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 7,675,305</u>	<u>\$ 5,738,260</u>	<u>\$ 26,523</u>	<u>\$ 195,764</u>
Component Unit:				
Hawarden Community Hospital	\$ 4,661,498	\$ 4,741,844	\$ 12,309	\$ 36,008

General Revenues:
Property taxes
Local Option Sales Tax
Transfer of LOST Funds From City
Interest
General Intergovernmental Revenues
Sale of Uncapitalized Assets
Miscellaneous
Interfund Transfers
Total general revenues and transfers
Change in net assets
Net assets - beginning
Net assets - ending

Net (Expense) Revenue and Changes in Net Assets			Component Unit Hawarden Comm. Hospital
Governmental Activities	Business-Type Activities	Total	
\$ (355,593)		\$ (355,593)	
(451,831)		(451,831)	
(239,645)		(239,645)	
(330,137)		(330,137)	
(221,972)		(221,972)	
(37,974)		(37,974)	
(77,329)		(77,329)	
<u>(1,714,481)</u>		<u>(1,714,481)</u>	
	\$ (28,542)	(28,542)	
	(95,450)	(95,450)	
	(101,124)	(101,124)	
	49,630	49,630	
	4,053	4,053	
	120,162	120,162	
	50,994	50,994	
	<u>(277)</u>	<u>(277)</u>	
<u>(1,714,481)</u>	<u>(277)</u>	<u>(1,714,758)</u>	
			\$ 128,663
895,892	-	895,892	-
238,350	-	238,350	-
-	-	-	235,318
104,910	170,667	275,577	26,209
230,798	-	230,798	-
1,727	-	1,727	-
29,550	16,250	45,800	-
384,000	(384,000)	-	-
<u>1,885,227</u>	<u>(197,083)</u>	<u>1,688,144</u>	<u>261,527</u>
170,746	(197,360)	(26,614)	390,190
9,178,517	5,041,204	14,219,721	2,057,559
<u>\$ 9,349,263</u>	<u>\$ 4,843,844</u>	<u>\$ 14,193,107</u>	<u>\$ 2,447,749</u>

CITY OF HAWARDEN, IOWA
BALANCE SHEET
Governmental Funds
JUNE 30, 2007

	General	TIF
Assets		
Cash and Pooled Investments	\$ 138,288	\$ 6,502
Investments	-	300,000
Receivables (Net, where applicable, of allowance for uncollectibles)		
Accounts	44,268	-
Taxes	6,964	6,283
Subsequent Year Taxes	330,733	372,609
Accrued Interest	-	717
Special Assessments	1,416	-
Pledges Receivable	-	-
Notes Receivable	-	-
Due from Other Funds	304,344	-
Due from Other Governmental Agencies	553	-
Prepaid Assets	66,128	-
Restricted Assets:		
Donor Restricted Investments	-	-
Total Assets	892,694	686,111
Liabilities and Fund Balances		
Liabilities:		
Accounts Payable	25,951	75
Accounts Payable to Discretely Presented Component Unit	-	-
Accrued Wages and Compensated Absences	17,160	-
Accrued Expenses	438	-
Due to Other Funds	-	-
Notes Payable	-	-
Unearned Revenue	516	4,852
Deferred Revenue - Subsequent Year Taxes	330,733	372,609
Advance from Other Funds	-	430,779
Total Liabilities	374,798	808,315
Fund Balances:		
Reserved for:		
Debt Service	-	-
Library Endowment	-	-
Prepaid Items	66,128	-
Unreserved for:		
General Fund	451,768	-
Special Revenue Fund	-	(122,204)
Capital Project Fund	-	-
Total Fund Balances	517,896	(122,204)
Total Liabilities and Equity	\$ 892,694	\$ 686,111

Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 42,173	\$ 520,290	\$ 707,253
-	-	300,000
-	-	44,268
1,617	2,545	17,409
90,155	120,788	914,285
-	4,674	5,391
-	-	1,416
-	37,500	37,500
152,442	-	152,442
-	-	304,344
-	56,082	56,635
-	-	66,128
-	130,934	130,934
286,387	872,813	2,738,005
-	2,723	28,749
-	39,115	39,115
-	-	17,160
-	-	438
-	35,083	35,083
152,442	-	152,442
-	9,000	14,368
90,155	143,288	936,785
-	-	430,779
242,597	229,209	1,654,919
43,790	-	43,790
-	159,370	159,370
-	-	66,128
-	-	451,768
-	32,100	(90,104)
-	452,134	452,134
43,790	643,604	1,083,086
\$ 286,387	\$ 872,813	\$ 2,738,005

CITY OF HAWARDEN, IOWA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
For the Year Ended June 30, 2007

Amounts reported for Governmental Activities in the Statement of Net assets are different because:

Total Fund Balance - Governmental Funds (page 18)	\$ 1,083,086
Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds	8,161,954
Internal service funds are used by management to acquire the capital equipment which is provided to user departments and are included in the statement of net assets.	1,377,981
Deferred revenues that provide current financial resources for governmental activities	27,868
Accrued expenses from the balance sheet that require current financial resources for governmental activities	(14,278)
Bond issue costs are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources	12,587
Accrued compensated absences not reported on the modified accrual basis.	(27,935)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(1,272,000)</u>
Total Net Assets - Governmental Activities (page 14)	<u><u>\$ 9,349,263</u></u>

CITY OF HAWARDEN, IOWA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
Year Ended June 30, 2007

	General	TIF	Debt Service
Revenue:			
Taxes	\$ 333,589	\$ 347,346	\$ 91,995
Special Assessments	257	-	-
Licenses and Permits	22,960	-	-
Intergovernmental Revenue	55,661	-	-
Charges for Services	197,372	-	-
Fines and Forfeits	14,599	-	-
Contributions	3,867	-	-
Refunds/Reimbursements	22,245	-	-
Rental Income	24,739	-	-
Interest	26,194	9,559	13,413
Miscellaneous	-	-	-
Total Revenue	701,483	356,905	105,408
Expenditures:			
Public Safety	480,486	-	-
Public Works	275,195	-	-
Health and Social Services	-	-	-
Culture and Recreation	371,145	-	-
Community and Economic Development	56,685	-	-
General Government	107,483	-	-
Capital Projects	-	191,676	-
Debt Service	-	29,887	338,216
Total Expenditures	1,290,994	221,563	338,216
Excess (deficiency) of revenues over expenditures	(589,511)	135,342	(232,808)
Other financing sources (uses):			
Proceeds from Sale of Assets	1,727	-	-
Bond Proceeds	-	432,000	-
Transfers In	662,944	114,950	237,245
Transfers Out	(133,548)	(487,745)	-
Total other financing sources (uses)	531,123	59,205	237,245
Net Change in Fund Balance	(58,388)	194,547	4,437
Fund balances-beginning of year	576,284	(316,751)	39,353
Fund balances (Deficits)- end of year	\$ 517,896	\$ (122,204)	\$ 43,790

Other Governmental Funds		Total Governmental Funds	
\$	121,883	\$	894,813
	-		257
	-		22,960
	606,343		662,004
	-		197,372
	-		14,599
	31,219		35,086
	7,306		29,551
	-		24,739
	25,769		74,935
	500		500
	<u>793,020</u>		<u>1,956,816</u>

	19,771		500,257
	32,000		307,195
	238,350		238,350
	15,397		386,542
	345		57,030
	-		107,483
	320,476		512,152
	-		368,103
	<u>626,339</u>		<u>2,477,112</u>
	<u>166,681</u>		<u>(520,296)</u>

			1,727
			432,000
	269,548		1,284,687
	(289,394)		(910,687)
	<u>(19,846)</u>		<u>807,727</u>
	146,835		287,431
	<u>496,769</u>		<u>795,655</u>
\$	<u>643,604</u>	\$	<u>1,083,086</u>

CITY OF HAWARDEN, IOWA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 21)		\$ 287,431
Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Capital outlays were exceeded by depreciation expense in the current year as follows:		
Expenditures for capital assets	\$ 200,068	
Depreciation expense	<u>(266,391)</u>	(66,323)
Revenues reported in the funds that are not available to provide current financial resources		3,323
Accrued interest expense that does not require current financial resources		6,118
Long-term accrual of compensated absences is not reported in the governmental funds as it does not consume current financial resources. The net change in in the long-term compensated absences for the year was:		193
Internal service funds are used by management to fund and maintain the City's insurance policies provided to user departments and for the maintenance, repair, and replacement of the City's automotive equipment and are included in the statement of net assets. The net revenue of the internal service funds is reported with governmental activities.		87,348
The issuance of indebtedness is provides current financial resources to the governmental funds without affecting net assets. The statement of activities does not reflect the proceeds from the issuance of long-term debt. The proceeds from the issuance of long-term debt for the year was:		(432,000)
The effect of bond issuance costs when new debt is issued, whereas, these amounts are deferred and amortized in the Statement of Activities		(344)
The repayment of the principal of bonded long-term debt consumes the current financial resources of governmental funds without affecting the net assets. The statement of activities does not reflect the payment of principal on bonded long-term debt. The principal paid on bonded long-term debt during the current year was:		<u>285,000</u>
Change in net assets of governmental activities (page 16)		<u>\$ 170,746</u>

CITY OF HAWARDEN, IOWA
COMBINING STATEMENT OF NET ASSETS
Proprietary Funds
June 30, 2007

	Business Type Activities		
	Water Utility	Waste Water Treatment Utility	Electric Utility
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ -	\$ 6,260	\$ 25,981
Investments	-	-	-
Receivables (Net, where applicable, of allowance for uncollectibles)			
Accounts	21,664	17,195	48,140
Accrued Interest	3,361	4,033	10,395
Estimated Unbilled Usage	17,835	12,170	111,798
Due from Other Funds	-	-	7,324
Investment in Joint Venture	-	-	845,668
Advances to Other Funds	-	190,812	239,967
Inventories	29,075	-	218,567
Prepaid Assets	3,913	3,091	18,512
Non-Current Assets:			
Restricted Assets:			
Cash and Cash Equivalents- Council Restricted Plant Replacement	378,812	482,741	385,332
Cash and Cash Equivalents - Bond Reserve	-	-	400,382
Investments - Council Restricted Plant Replacement	-	-	-
Customer Deposits	-	-	-
Bond Issue Costs	-	-	35,635
Land	33,873	130	-
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	785,500	429,536	1,388,014
Total Assets	1,274,033	1,145,968	3,735,715
LIABILITIES			
Current Liabilities:			
Accounts Payable	4,471	4,148	100,173
Accrued Wages	771	661	3,893
Accrued Expenses	668	28	2,147
Due to Other Funds	71,007	-	144,899
Due to Other Governments	-	-	-
Accrued Postclosure Costs	-	-	-
Payables from Restricted Assets:			
Customer Deposits	-	-	-
Accrued Revenue Bond Interest	-	-	8,379
Revenue Bonds - Current	-	-	260,000
Noncurrent Liabilities:			
Due within one year:			
Compensated Absences and Benefits	253	136	1,019
Due in more than one year:			
Revenue Bonds Payable	-	-	2,435,000
Compensated Absences and Benefits, Long-Term	2,278	1,221	9,168
Total Liabilities	79,448	6,194	2,964,678
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	819,373	429,666	(1,306,986)
Restricted for:			
Revenue Bonds	-	-	392,003
Investment in Joint Venture	-	-	845,668
Unrestricted	375,212	710,108	840,352
Total Net Assets	\$ 1,194,585	\$ 1,139,774	\$ 771,037

Business Type Activities					Governmental Activities Internal Service
Gas Utility	Solid Waste Utility	Telephone Utility	Cable/Internet Utility	Total	
\$ 487	\$ 50,483	\$ 287,200	\$ -	\$ 370,411	\$ 666,663
-	20,000	-	-	20,000	-
42,943	10,807	42,843	3,224	186,816	-
56	3,205	4,570	-	25,620	6,050
27,526	8,302	-	-	177,631	-
133,250	-	-	-	140,574	11,649
-	33,776	-	-	879,444	-
-	-	-	-	430,779	-
34,499	-	110,666	24,381	417,188	-
4,813	2,250	4,799	2,830	40,208	-
159,666	15,523	240,058	122,758	1,784,890	-
-	-	-	-	400,382	-
-	180,000	112,000	-	292,000	-
35,608	-	6,251	-	41,859	-
-	-	-	-	35,635	-
6	22,085	-	-	56,094	-
161,497	-	49,337	171,559	2,985,443	693,619
600,351	346,431	857,724	324,752	8,284,974	1,377,981
28,478	10,613	27,957	18,773	194,613	-
1,432	-	2,070	731	9,558	-
1,331	5	-	348	4,527	-
204,257	-	-	1,321	421,484	-
-	-	34,818	-	34,818	-
-	5,440	-	-	5,440	-
35,608	-	6,251	-	41,859	-
-	-	-	-	8,379	-
-	-	-	-	260,000	-
288	-	678	171	2,545	-
-	-	-	-	2,435,000	-
2,593	-	6,106	1,541	22,907	-
273,987	16,058	77,880	22,885	3,441,130	-
161,503	22,085	49,337	171,559	346,537	693,619
-	-	-	-	392,003	-
-	33,776	-	-	879,444	-
164,861	274,512	730,507	130,308	3,225,860	684,362
\$ 326,364	\$ 330,373	\$ 779,844	\$ 301,867	\$ 4,843,844	\$ 1,377,981

CITY OF HAWARDEN, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
Proprietary Funds
For the Year Ended June 30, 2007

	Business Type Activities		
	Water Utility	Waste Water Treatment Utility	Electric Utility
Operating Revenues:			
Charges for Services	\$ 265,507	\$ 220,080	\$ 1,917,371
Total Operating Revenue	<u>265,507</u>	<u>220,080</u>	<u>1,917,371</u>
Operating Expenses:			
Resale Purchases			943,260
Employee Services	64,341	45,415	133,171
Contract Services	89,088	121,298	149,388
Supplies	47,601	11,097	83,759
Repairs and Improvements	24,815	35,729	49,309
Utilities	11,617	42,511	
Miscellaneous	2,964	587	10,125
Depreciation	53,623	58,893	539,374
Amortization			3,718
Total Operating Expenses	<u>294,049</u>	<u>315,530</u>	<u>1,912,104</u>
Operating Income (Loss)	(28,542)	(95,450)	5,267
Non-Operating Income (Expense):			
Interest Income	17,237	35,984	69,782
Sale of Uncapitalized Assets			
Other Non-operating Revenues (Expenses)	4,657	305	(15,730)
Interest Expense			(106,391)
Total Non-Operating Income (Expenses)	<u>21,894</u>	<u>36,289</u>	<u>(52,339)</u>
Income (Loss) before Contributions and Transfers	(6,648)	(59,161)	(47,072)
Capital Contributions			22,000
Transfers In			
Transfers Out	(7,000)	(7,000)	(207,500)
Change in Net Assets	(13,648)	(66,161)	(232,572)
Net Assets - Beginning	<u>1,208,233</u>	<u>1,205,935</u>	<u>1,003,609</u>
Net Assets - Ending	<u>\$ 1,194,585</u>	<u>\$ 1,139,774</u>	<u>\$ 771,037</u>

Business Type Activities					Governmental Activities
Gas Utility	Solid Waste Utility	Telephone Utility	Cable/Internet Utility	Total	Internal Service
\$ 1,479,759	\$ 161,683	\$ 995,240	\$ 382,920	\$ 5,422,560	\$ 201,243
1,479,759	161,683	995,240	382,920	5,422,560	201,243
1,121,132	138,577	411,566	175,426	2,789,961	
95,124		68,710	49,481	456,242	
140,395	17,736	303,588	60,341	881,834	
24,958	180	31,232	13,828	212,655	-
20,034	1,000	10,140	9,735	150,762	12,963
	137	11,537		65,802	
8,030		35,885	1,032	58,623	64
20,456		2,420	22,083	696,849	140,842
				3,718	
1,430,129	157,630	875,078	331,926	5,316,446	153,869
49,630	4,053	120,162	50,994	106,114	47,374
541	14,443	28,571	4,109	170,667	29,975
1,227	359	13	3,419	(5,750)	-
				(106,391)	-
1,768	14,802	28,584	7,528	58,526	29,975
51,398	18,855	148,746	58,522	164,640	77,349
		112,000		22,000	
(132,500)		(142,000)		112,000	10,000
				(496,000)	
(81,102)	18,855	118,746	58,522	(197,360)	87,349
407,466	311,518	661,098	243,345	5,041,204	1,290,632
\$ 326,364	\$ 330,373	\$ 779,844	\$ 301,867	\$ 4,843,844	\$ 1,377,981

CITY OF HAWARDEN, IOWA
COMBINING STATEMENT OF CASH FLOWS
Proprietary Funds
For the Year Ended June 30, 2007

	Business Type Activities		
	Water Utility	Waste Water Treatment Utility	Electric Utility
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 269,173	\$ 217,870	\$ 1,909,965
Cash Received from Interfund Services Provided			
Cash Paid to Suppliers for Goods and Services	(167,658)	(203,042)	(1,267,554)
Cash Paid to Employees for Services	(64,223)	(45,360)	(131,215)
Cash Paid for Interfund Services Provided	(5,917)	(7,167)	(40,567)
Other Nonoperating Income	4,657	305	7,480
Net Cash Provided (Used) by Operating Activities	<u>36,032</u>	<u>(37,394)</u>	<u>478,109</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and Construction of Capital Assets	(12,150)		(160,981)
Principal Paid on Notes and Bonds			(250,000)
Interest Paid on Notes and Bonds			(106,922)
Net Cash (Used) by Capital and Related Financing Activities	<u>(12,150)</u>	<u>-</u>	<u>(517,903)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Operating Transfers to Other Funds	(7,000)	(7,000)	(207,500)
Operating Transfers From Other Funds			
Advances From (To) Other Funds		9,188	26,677
Due From (To) Other Funds	(2,057)		(329)
Net Cash (Used) for Non-Capital Financing Activities	<u>(9,057)</u>	<u>2,188</u>	<u>(181,152)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Investment Securities			
Proceeds from Sale of Investment Securities	200,000	300,000	893,965
Interest and Dividends on Investments	16,475	35,849	72,285
Net Cash Provided for Investing Activities	<u>216,475</u>	<u>335,849</u>	<u>966,250</u>
Net Increase (Decrease) in Cash and Cash Equivalents	231,300	300,643	745,304
Cash and Cash Equivalents at Beginning of Year	<u>147,512</u>	<u>188,358</u>	<u>66,391</u>
Cash and Cash Equivalents at End of Year	<u>\$ 378,812</u>	<u>\$ 489,001</u>	<u>\$ 811,695</u>

Business Type Activities					Governmental Activities
Gas Utility	Solid Waste Utility	Telephone Utility	Cable/Internet Utility	Total	Internal Service
\$ 1,487,821	\$ 160,774	\$ 1,024,360	\$ 382,491	\$ 5,452,454	\$ 201,342
(1,313,162)	(158,045)	(846,295)	(257,349)	(4,213,105)	(27,633)
(95,590)		(69,661)	(49,138)	(455,187)	
(9,792)	(1,000)	(8,500)	(8,500)	(81,443)	
1,227	359	13	3,419	17,460	
<u>70,504</u>	<u>2,088</u>	<u>99,917</u>	<u>70,923</u>	<u>720,179</u>	<u>173,709</u>
(9,084)			(12,050)	(194,265)	(132,702)
				(250,000)	
				(106,922)	
<u>(9,084)</u>	<u>-</u>	<u>-</u>	<u>(12,050)</u>	<u>(551,187)</u>	<u>(132,702)</u>
(132,500)		(142,000)		(496,000)	
		112,000		112,000	10,000
				35,865	
75,153			(33,032)	39,735	
<u>(57,347)</u>	<u>-</u>	<u>(30,000)</u>	<u>(33,032)</u>	<u>(308,400)</u>	<u>10,000</u>
	(20,000)			(20,000)	-
		88,000		1,481,965	300,000
691	13,576	26,598	4,109	169,583	27,822
<u>691</u>	<u>(6,424)</u>	<u>114,598</u>	<u>4,109</u>	<u>1,631,548</u>	<u>327,822</u>
4,764	(4,336)	184,515	29,950	1,492,140	378,829
<u>190,997</u>	<u>70,342</u>	<u>348,994</u>	<u>92,808</u>	<u>1,105,402</u>	<u>287,834</u>
<u>\$ 195,761</u>	<u>\$ 66,006</u>	<u>\$ 533,509</u>	<u>\$ 122,758</u>	<u>\$ 2,597,542</u>	<u>\$ 666,663</u>

(Continued)

CITY OF HAWARDEN, IOWA
COMBINING STATEMENT OF CASH FLOWS (Continued)
Proprietary Funds
For the Year Ended June 30, 2007

	Business Type Activities		
	Water Utility	Waste Water Treatment Utility	Electric Utility
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ (28,542)	\$ (95,450)	\$ 5,267
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	53,623	58,893	539,374
Amortization			3,718
Miscellaneous Non-Operating Income	4,657	305	7,480
(Increase) Decrease in Assets:			
Accounts Receivable	3,350	(2,148)	3,359
Estimated Unbilled Usage	316	(62)	(10,765)
Inventories	7,072		(27,568)
Prepaid Expenses	(111)	16	1,182
Increase (Decrease) in Liabilities			
Accounts Payable	(3,855)	1,048	(44,464)
Accrued Wages	26	43	(95)
Accrued Compensated Absences	92	12	2,051
Due To Other Governments			
Accrued Expenses	(596)	(51)	(1,430)
Customer Deposits			
Total Adjustments	64,574	58,056	472,842
Net Cash Provided (Used) by Operating Activities	\$ 36,032	\$ (37,394)	\$ 478,109

**Supplemental Schedule of Noncash Capital
and Related Financing Activities:**

Contributed Capital	\$ -	\$ -	\$ 22,000
---------------------	------	------	-----------

**Reconciliation of Cash and Cash Equivalents
to the Balance Sheet:**

Cash and Cash Equivalents	\$ -	\$ 6,260	\$ 25,981
Customer Deposits	-	-	-
Restricted Cash and Cash Equivalents	378,812	482,741	785,714
	\$ 378,812	\$ 489,001	\$ 811,695

Business Type Activities					Governmental Activities
Gas Utility	Solid Waste Utility	Telephone Utility	Cable/Internet Utility	Total	Internal Service
\$ 49,630	\$ 4,053	\$ 120,162	\$ 50,994	\$ 106,114	\$ 47,374
20,456		2,420	22,083	696,849	140,842
1,227	359	13	3,419	3,718	-
3,080	(731)	29,213	(429)	17,460	-
1,951	(178)	1,669		35,694	99
(3,633)			(6,469)	(7,069)	
143		65	52	(30,598)	
(5,198)	(730)	(50,067)	1,039	1,347	
94		(55)	106	(102,227)	(14,606)
(560)		(896)	237	119	
283	(685)	(2,514)	(109)	936	
3,031		(93)		(2,514)	
20,874	(1,965)	(20,245)	19,929	(2,588)	
\$ 70,504	\$ 2,088	\$ 99,917	\$ 70,923	2,938	
				614,065	126,335
				\$ 720,179	\$ 173,709
\$ -	\$ -	\$ -	\$ -	\$ 22,000	\$ -
\$ 487	\$ 50,483	\$ 287,200	\$ -	\$ 370,411	\$ 666,663
35,608	-	6,251	-	41,859	-
159,666	15,523	240,058	122,758	2,185,272	-
\$ 195,761	\$ 66,006	\$ 533,509	\$ 122,758	\$ 2,597,542	\$ 666,663

CITY OF HAWARDEN, IOWA
STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds
June 30, 2007

	Pension Trust Fund			
	Police Retirement Fund		Agency Funds	Total
ASSETS				
Cash and Pooled Investments	\$	-	\$ 26,895	\$ 26,895
Accounts Receivable		-	-	-
Total Assets		-	26,895	26,895
LIABILITIES				
Accounts Payable		380	35	415
Due to Other Governments		553	26,860	27,413
Total Liabilities		933	26,895	27,828
NET ASSETS				
Held in Trust for Pension Benefits		(933)	-	(933)
Total Net Assets	\$	(933)	\$ -	\$ (933)

CITY OF HAWARDEN, IOWA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Fiduciary Funds
For the Year Ended June 30, 2007

	<u>Pension Trust Fund</u>
	<u>Police Retirement Fund</u>
ADDITIONS	
Contributions:	
Employer	\$ 19,771
Total Contributions	<u>19,771</u>
Investment Income:	
Interest, Dividends and Market Gain	<u>32</u>
Net Investment Income	<u>32</u>
Total Additions	<u>19,803</u>
DEDUCTIONS	
Pension Benefits	19,810
Administrative Costs	<u>600</u>
Total Deductions	<u>20,410</u>
Net (Decrease)	(607)
Net Assets -- Beginning of Period	<u>(326)</u>
Net Assets -- End of Period	<u>\$ (933)</u>

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hawarden is a political subdivision of the State of Iowa located in Sioux County. It was first incorporated in 1887 and operates under the Mayor-Council form of government with the Mayor and Council elected on a non-partisan basis. The City administers the following programs under its charter: public safety, public works, health and social services, culture and recreation, community and economic development and general government. It also provides water, sewer, electric and sanitation utilities and telephone and cable/internet services.

The financial statements of the City of Hawarden have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

For financial reporting purposes, the City of Hawarden has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

A. Reporting Entity

These financial statements present the City of Hawarden (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its financial relationship with the City. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from their administrative offices.

Discretely Presented Component Unit – The Hawarden Community Hospital (Hospital) is organized under Chapter 392 of the Code of Iowa and governed by a five member Board of Trustees elected for four year terms. The City of Hawarden annually provides significant operating subsidies to the Hospital. In accordance with criteria set forth by the Governmental Accounting Standards Board. The Hospital meets the definition of a component unit which should be discretely presented. The Hospital is accounted for as a Proprietary Fund in these financial statements. Complete financial statements are on file at the hospital.

Jointly Governed Organizations – The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Sioux County Conference Board, Sioux County Emergency Management Commission and Sioux County Joint E911 Service Board.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

The City does not allocate indirect costs. Certain expenses of the City are accounted for through the internal service fund on a cost-reimbursement basis.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental, the City's capital equipment internal service fund, and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reported the following major governmental funds.

The General Fund is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The Special Revenue Tax Increment Financing Revenues Fund is used to account for funds provided to private companies for economic development and related tax revenues from the tax increment financing district.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. General property taxes or tax increment financing are to provide the revenues for the debt services payments.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation of a municipally owned water system, which provides services to the residents of the City.

The Waste Water Fund accounts for the operation of a municipally owned sewage collection and treatment facility, which provides services to the residents of the City.

The Electric Fund accounts for the operation of a municipally owned electric system, which distributes electrical power to the residents of the City.

The Gas Fund accounts for the operation of a municipally owned natural gas system, which distributes natural gas to the residents of the City.

The Solid Waste Fund accounts for the collection and disposal of solid waste. The services are performed by a private contractor. The City is responsible for the billing and collection of the customers' accounts and payments to the contractor.

The Telephone Fund accounts for the operation of a municipally owned telephone system, providing telephone service to residents of the City.

The Cable/Internet Fund accounts for the operation of a municipally owned cable/internet system providing cable/internet services to residents of the City.

Internal Service Fund – The capital equipment fund is used to account for the financing of goods to other departments of the City on a cost-recovery basis. This fund is presented in the proprietary fund financial statements. Because the principal users of the capital equipment fund are the City's governmental activities, the financial statements of the fund are consolidated into the governmental column when presented in the government-wide financial statements.

Fiduciary Fund Types – These funds account for assets held by the government in a trustees capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement.

- 1) Pension Trust Fund – The Police Retirement Fund represents the resources accumulated to fund police retirements. These funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting, so that revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

- 2) Agency Funds – The Payroll Clearing Fund acts as a clearing mechanism for payroll which is shared by various funds of the City. The Flex Spending Fund is used to account for funds withheld from the checks of city employees for qualified expenses. The Community Projects Fund accounts for funds received by various organizations within the community and held until a specific project is completed by those organizations.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property taxes to be available if they are collected within 60 days after year end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Those revenues susceptible to accrual are property taxes, assessments, and intergovernmental revenues. Licenses, fines and permits are not susceptible to accrual because generally they are not measurable until received in cash.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following FASB pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Pooled Cash, Investments and Cash Equivalents – The cash balances of most City funds are pooled and invested in money market checking accounts. Interest earned on those investments is recorded in the General Fund unless otherwise provided by law. Other investments held by specific funds consist of non-negotiable certificates of deposit which are stated at cost or U.S. government securities stated at fair value determined by quoted market prices or in the Iowa Public Agency Investment trust stated at fair value determined by current share prices.

For the purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2007 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects tax asking contained in the budget certified to the County Board of Supervisors March, 2006.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded at the time the service is billed, net of an allowance for doubtful accounts of \$11,440 and \$16,662 at June 30, 2007 and 2006, respectively. Unbilled usage, recorded in the Enterprise Funds for service consumed between periodic scheduled billing dates, is estimated and is recognized as revenue in the period in which the service is provided.

Also, the Hawarden Community Hospital's accounts receivable consists of patient receivables net of allowances for estimated third-party contractual adjustments and uncollectibles of \$190,784 and \$203,659 at June 30, 2007 and 2006, respectively.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa.

Internal Balances – During the course of its operations, the City has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2007, the balance of interfund amounts payable or receivable have been recorded in the fund financial statements.

Advances From and To Other Funds – Advances are long-term borrowings between funds which are repaid over time plus interest.

Inventories – Inventories are valued at the lower of cost (first-in, first-out) or market. Governmental Fund Type inventories of expendable supplies held for consumption are recorded as an expenditure at the time of purchase and are not recorded on the combined balance sheet because the amounts are not material. Inventories in the Enterprise Funds, consisting of material and supplies, are reported as an expense when consumed.

Restricted Assets – Proceeds from debt and funds set aside for payment of enterprise fund revenue bonds are classified as restricted assets since their use is limited by applicable bond indentures. Customer deposits are monies paid by customers and held by the City until future refunding or application to an unpaid account balance. The principal portion of Donor Restricted Endowments are also classified as restricted assets, as only the interest earned on these assets may be expended. It is the City's policy to first apply unrestricted resources when an expense is incurred for purposes for which either are available.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, curbs, gutters) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Roads have been capitalized using estimated historical cost beginning in 1980 as required by GASB 34. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds.

<u>Asset Class</u>	<u>Amount</u>
General Fixed Assets	\$ 2,000
Utility Fixed Assets	5,000
Infrastructure	50,000

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	30 – 100 years
Improvements other than buildings	15 – 40 years
Vehicles	5 – 10 years
Equipment	5 – 20 years
Infrastructure	50 – 100 years

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of notes receivable not currently due, as well as delinquent property tax receivable and special assessments not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and grant funds received but not yet earned or expended.

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid by the General Fund.

Long-Term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Budgets and Budgetary Accounting – The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures for the year ended June 30, 2007 exceeded amounts budgeted in Health and Social Services.

Note 2 - POOLED CASH , INVESTMENTS AND CASH EQUIVALENTS

The City deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 2 POOLED CASH, INVESTMENTS AND CASH EQUIVALENTS – (Continued)

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. There were no differences in investments held during the year from those at June 30, 2007.

At June 30, 2007 the City had the following investments:

	Credit Risk	Fair Value
U.S. Treasury Notes	N/A	\$ 40,000

Reconciliation of Investments:

Unrestricted:

Certificates of Deposit.....	\$ 320,000
------------------------------	------------

Restricted:

U.S. Treasury Notes	40,000
Certificates of Deposit.....	382,934
	<u>\$ 742,934</u>

Note 3 - JOINT VENTURES

MBMECA - The City is a participant in the Missouri Basin Municipal Electric Cooperative Association, a joint venture for the construction and maintenance of power lines from the Northwest Iowa Power Cooperative. The construction of the lines is accomplished by NIPCO and there are no actual dedicated lines, but rather an agreement which guarantees the municipalities the right to draw power over the lines at a raw power cost without transmission charges. The City owns an 11.75 percent share of the venture with twelve other cities sharing in the ownership at varying percentages. The City's investment in the joint venture is accounted for on the equity method in the Electric Fund. The net income reported on the financial statements is reported on the City's fiscal year, not on the Cooperative's year; therefore, the summary data presented below does not agree with the financial statements.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 3 - JOINT VENTURES – (Continued)

Summary financial information of the joint venture for the year ended December 31, 2006 follows:

	<u>Total</u>	<u>City Share</u>
Assets	\$ 7,890,223	\$ 927,101
Liabilities	454,448	53,398
Equity	7,435,775	873,703
	<u>7,890,223</u>	<u>927,101</u>
Revenues	1,068,402	125,537
Expenses	1,129,825	132,754
Net Decrease in Equity	<u>\$ (61,423)</u>	<u>\$ 7,217</u>

The joint venture has no outstanding debt. Complete financial statements can be obtained directly from MBMECA.

Northwest Iowa Solid Waste - In 1991 the City contributed \$33,776 capital to Northwest Iowa Area Solid Waste Agency for membership in the Agency. Membership provides the City with use of solid waste facilities. In the event of the City's withdrawal from the Agency or dissolution, the City is entitled to the lower of its capital contribution or a share of the Agency's assets based on the City's prorata share of contributions by all municipalities. Complete financial statements can be obtained directly from Northwest Iowa Solid Waste.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Primary Government				
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 473,625	-	-	\$ 473,625
Construction in Progress-infrastructure	-	\$ 19,750	-	19,750
Construction in Progress-improvements	221,143	96,135	\$ 317,278	-
Construction in Progress-buildings	96,843	21,446	118,289	-
Total capital assets not being depreciated	791,611	137,331	435,567	493,375
Capital assets being depreciated:				
Buildings	5,578,703	124,362	-	5,703,065
Improvements other than buildings	999,562	330,206	-	1,329,768
Equipment and vehicles	2,514,117	141,294	\$ 167,331	2,488,080
Infrastructure, road network	4,387,560	35,143	-	4,422,703
Total capital assets being depreciated	13,479,942	\$ 631,005	\$ 167,331	\$ 13,943,616
Less: Accumulated Depreciation for:				
Buildings	\$ 2,085,015	\$ 128,771	-	\$ 2,213,786
Improvements other than buildings	509,654	37,564	-	547,218
Equipment and vehicles	1,618,047	167,546	\$ 167,331	1,618,262
Infrastructure, road network	1,128,800	73,352	-	1,202,152
Total Accumulated Depreciation	5,341,516	407,233	167,331	5,581,418
Total capital assets being depreciated, net	8,138,426	223,772	-	8,362,198
Governmental activities capital assets, net	\$ 8,930,037	\$ 361,103	\$ 435,567	\$ 8,855,573
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 56,094	-	-	\$ 56,094
Total capital assets not being depreciated	56,094	-	-	56,094
Capital assets being depreciated:				
Buildings	102,703	-	-	102,703
Utility Plant	12,041,175	\$ 216,265	-	12,257,440
Total capital assets being depreciated	12,143,878	216,265		12,360,143
Less: Accumulated Depreciation for:				
Buildings	79,554	2,795	-	82,349
Utility Plant	8,598,297	694,054	-	9,292,351
Total Accumulated Depreciation	8,677,851	696,849	-	9,374,700
Total capital assets being depreciated, net	3,466,027	(480,584)	-	2,985,443
Business-Type activities capital assets, net	\$ 3,522,121	\$ (480,584)	-	\$ 3,041,537

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 4 -CAPITAL ASSETS – (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

Public Safety	\$ 23,536
Public Works	140,394
Health & Social Services	1,295
Culture & Recreation	74,138
Community Economic Development	20,854
General Government	147,016
Total depreciation expense – governmental activities	<u>\$ 407,233</u>

The governmental depreciation expense amount shown above includes \$140,842 of depreciation expense from the City's internal service fund which is recorded as a governmental activity on the government-wide statements.

Business-Type Activities:

Water	\$ 53,623
Wastewater	58,893
Electric	539,374
Gas	20,456
Cable/Internet	22,083
Telephone	2,420
Total depreciation expense – business type activities	<u>\$ 696,849</u>

Discretely presented component unit	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 7,000	-	-	\$ 7,000
Construction-in-Progress	85,272	-	\$ 41,050	44,222
	<u>92,272</u>	<u>-</u>	<u>41,050</u>	<u>51,222</u>
Capital assets being depreciated:				
Land Improvements	28,089	-	-	28,089
Hospital	1,437,781	\$ 67,825	-	1,505,606
Fixed Equipment	513,619	-	-	513,619
Major Moveable Equipment	1,209,039	439,554	-	1,648,593
Total capital assets being depreciated	<u>3,188,528</u>	<u>507,379</u>	<u>-</u>	<u>3,695,907</u>
Less: Accumulated Depreciation for:				
Land Improvements	24,651	1,755	-	26,406
Hospital	902,504	46,000	-	948,504
Fixed Equipment	354,406	17,037	-	371,443
Major Moveable Equipment	965,137	122,979	-	1,088,116
Total Accumulated Depreciation	<u>2,246,698</u>	<u>187,771</u>	<u>-</u>	<u>2,434,469</u>
Total capital assets being depreciated, net	941,830	319,608	-	1,261,438
Total capital assets, net	<u>\$ 1,034,102</u>	<u>\$ 319,608</u>	<u>\$ 41,050</u>	<u>\$ 1,312,660</u>
Total depreciation expense – discretely presented component unit				<u>\$ 187,771</u>

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 4 - CAPITAL ASSETS – (Continued)

Reconciliation of Invested In Capital Assets, net of related debt.

	Governmental Activities	Business-Type Activities	Component Unit
Land	\$ 473,625	\$ 56,094	\$ 7,000
Construction-in-Progress	19,750	-	44,222
Capital Assets (net of accumulated depreciation)	8,362,198	2,985,443	1,261,438
Less:			
General Obligation Bonds Payable	1,272,000	-	-
Notes Payable	-	-	348,698
Revenue Bonds	-	2,695,000	-
	<u>\$ 7,583,573</u>	<u>\$ 346,537</u>	<u>\$ 963,962</u>

Note 5 - CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Due Within One Year
Governmental activities:					
Compensated Absences	\$ 28,128	\$ 26,167	\$ 26,360	\$ 27,935	\$ 2,794
General obligation bonds/notes	1,125,000	432,000	285,000	1,272,000	140,000
	<u>\$ 1,153,128</u>	<u>\$ 458,167</u>	<u>\$ 311,360</u>	<u>\$ 1,299,935</u>	<u>\$ 142,794</u>

Unaccrued premium at June 30, 2007 on bonds sold at premium totaled \$3,994.

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Due Within One Year
Business type activities:					
Revenue notes	\$ 2,945,000	-	\$ 250,000	\$ 2,695,000	\$ 260,000
Compensated Absences	24,516	\$ 23,846	22,910	25,452	2,545
	<u>\$ 2,969,516</u>	<u>\$ 23,846</u>	<u>\$ 272,910</u>	<u>\$ 2,720,452</u>	<u>\$ 262,545</u>

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Due Within One Year
Component unit:					
Bank Notes	\$ 22,102	\$ 381,184	\$ 54,588	\$ 348,698	\$ 76,828
Capital Lease	10,091	-	10,091	-	-
	<u>\$ 32,193</u>	<u>\$ 381,184</u>	<u>\$ 64,679</u>	<u>\$ 348,698</u>	<u>\$ 76,828</u>

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 5 - CHANGES IN LONG-TERM LIABILITIES – (Continued)

General Obligation Bonds/Notes

Two issues of unmatured general obligation bonds/notes, totaling \$1,272,000 are outstanding at June 30, 2007. General obligation bonds/notes bear interest at rates ranging from 2.0-4.05% and mature in varying annual amounts, ranging from \$60,000 to \$95,000, with the final maturities due in the year ending June 1, 2018.

Details of general obligation bonds/notes payable at June 30, 2007 are as follows:

Governmental Activities:	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2007
General obligation bonds/notes:						
Capital Loan Notes	June 14, 2007	4.05%	June 1, 2012	80,000-93,000	432,000	\$ 432,000
General corporate purpose and refunding	May 1, 2003	2.0-4.0%	June 1, 2018	50,000-95,000	1,060,000	840,000
						<u>\$ 1,272,000</u>

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year Ending June 30	Principal	Interest	Total
2008	\$ 140,000	\$ 46,719	\$ 186,719
2009	148,000	42,311	190,311
2010	151,000	36,837	187,837
2011	160,000	31,242	191,242
2012	168,000	25,321	193,321
2013-2017	410,000	66,735	476,735
2018	95,000	3,800	98,800
Total	<u>\$ 1,272,000</u>	<u>\$ 252,965</u>	<u>\$ 1,524,965</u>

Revenue Notes

The City has pledged income derived from the acquired or constructed asset to pay debt service.

There are a number of limitations and restrictions contained in the revenue bond indenture summary. The reserve requirements are as follows:

Enterprise	Type of Account	Required Balance June 30, 2007	Actual Balance June 30, 2007
Electric	Electric Revenue Sinking Fund	\$ 30,046	\$ 30,882
Electric	Bond and Interest Reserve	269,500	269,500
Electric	Bond Improvement	100,000	100,000

These amounts are classified as restricted assets on the combined balance sheet.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 5 - CHANGES IN LONG-TERM LIABILITIES -- (Continued)

Details of revenue notes payable at June 30, 2007 are as follows:

Business Type Activities	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2007
Revenue Notes:						
Electric Crossover Refunding	Jan. 26, 2004	2.55-4.3%	June 1, 2016	250,000-350,000	2,945,000	<u>\$ 2,695,000</u>

A summary of the annual revenue note principal and interest requirements to maturity is as follows:

Year Ending June 30	Principal	Interest	Total
2008	\$ 260,000	\$ 100,548	\$ 360,548
2009	265,000	92,877	357,877
2010	275,000	84,662	359,662
2011	285,000	75,312	360,312
2012	295,000	65,053	360,053
2013-2016	1,315,000	139,597	1,454,598
Total	<u>\$ 2,695,000</u>	<u>\$ 558,050</u>	<u>\$ 3,253,050</u>

Bank Loans:

In FY02, the City borrowed \$180,000 for Wee Care Child Care for improvements to the leased portion of the community center. The City will make payments on this loan at the same terms as the Wee Care schedule of payments to the City as scheduled in Note 11.

Component Unit:

In May 2003, the Hospital took out a note from Farmers State Bank in Hawarden for \$25,000 to be used for the purchase of property and equipment. The note had an interest rate of 4.5% and was repaid during 2007.

In May 2005, the Hospital took out a note from Farmers State Bank in Hawarden for \$21,500 to be used for the purchase of property and equipment. The note has an interest rate of 5.0% and will be repaid over three years in monthly installments of \$644, beginning June 11, 2005.

In July 2006, the Hospital took out a note from Farmers State Bank in Hawarden for \$172,000 to be used for the purchase of property and equipment. This note has an interest rate of 6.0% and will be repaid over five years in monthly installments of \$3,326, beginning August 28, 2006.

In December 2006, the Hospital took out a note from First State Bank in Hawarden for \$135,000 to be used for the purchase of property and equipment. This note has an interest rate of 5.95% and will be repaid over five years in monthly installments of \$2,611, beginning January 10, 2007.

In May 2007, the Hospital took out a note from Farmers State Bank in Hawarden for \$74,184 for the purchase of property and equipment. This note has an interest rate of 5.75% and will be repaid over five years in monthly installments of \$1,426, beginning July 1, 2007.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 5 - CHANGES IN LONG-TERM LIABILITIES – (Continued)

Annual debt service requirements related to the Notes are as follows:

Year	Principal	Interest	Total
2008	\$ 76,828	\$ 18,617	\$ 95,445
2009	74,238	14,117	88,355
2010	78,766	9,588	88,354
2011	83,571	4,784	88,355
2012	35,295	808	36,103
	<u>\$ 348,698</u>	<u>\$ 47,914</u>	<u>\$ 396,612</u>

A summary of interest expense on borrowed funds during the year ended June 30, 2007:

	2007
Interest cost expense	<u>\$ 13,573</u>

Note 6 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 175,000
	Employee Benefit Levy	101,444
	Tax Increment Financing Revenues	26,500
	Capital Projects	
	Capital Improvement	10,000
	Enterprise	
	Electric	197,500
	Gas	122,500
	Telephone	30,000
		<u>662,944</u>
Debt Service	Special Revenue:	
	Tax Increment Financing Revenues	237,245
		<u>237,245</u>
Special Revenue:		
Tax Increment Financing Revenues	Capital Projects	2,950
	Enterprise:	
	Telephone	112,000
		<u>114,950</u>
Capital Projects	General:	123,548
	Special Revenue:	
	Tax Increment Financing Revenues	112,000
	Enterprise:	
	Water	7,000
	Electric	10,000
	Gas	10,000
	Wastewater	7,000
		<u>269,548</u>
Total Governmental Transfers		<u>\$ 1,284,687</u>
Internal Service	General	<u>\$ 10,000</u>
Enterprise:	Special Revenue:	
Telephone	Tax Increment Financing Revenues	<u>\$ 112,000</u>

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 6 - INTERFUND TRANSFERS (Continued)

Transfers are used to move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources, as well as to move resources from the business-type activities to governmental funds to help finance general governmental operations.

Note 7 - INTERFUND RECEIVABLES/PAYABLES

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions between funds have not been paid or received as of June 30, 2007, balances of interfund amounts payable or receivable have been recorded as "due to other funds" and "due from other funds", respectively. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as interfund balances.

The detail of short-term interfund receivables and payables at June 30, 2007 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Enterprise:	
	Gas	\$ 204,257
	Cable/Internet	1,321
	Water	63,683
	Capital Projects	35,083
Enterprise:	Enterprise:	
Gas	Electric	133,250
Electric	Water	7,324
Internal Service:	Enterprise:	
Capital Equipment	Electric	11,649
		<u>\$ 456,567</u>

The detail of long-term advances to and from other funds at June 30, 2007 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Enterprise:	Special Revenue:	
Electric	Tax Increment Financing	\$ 239,967
Wastewater	Tax Increment Financing	190,812
		<u>\$ 430,779</u>

Note 8 - PENSION AND RETIREMENT FUND COMMITMENTS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute plan to members and beneficiaries. IPERS issues a publicly available financial report that includes financial

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 8 - PENSION AND RETIREMENT FUND COMMITMENTS – (Continued)

statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.08% and 9.12%, respectively.

Contribution requirements are established by state statute. The City contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$64,769, \$64,350 and \$59,558, respectively, equal to the required contributions for each year.

In addition the Hawarden Municipal Hospital contributed the following amounts for the year ended June 30, 2007, 2006, and 2005, respectively, \$99,135, \$93,959, and \$74,006. These amounts also equal the required annual contributions.

Police Pension - The City maintains a single-employer, defined benefit pension plan (police retirement system), which was organized under Chapter 410 of the Code of Iowa. Police personnel who were in the employ of the City prior to July 1, 1971, are eligible to participate in the plan. Any eligible participant may be entitled to benefits if such member has served 22 years or more and shall have reached the age of 50 years; or who shall, while a member of the department, become mentally or physically permanently disabled while performing his duties. The salary benefit is equal to one-half the amount of salary received by him monthly at the date he actually retires from the department. Benefits are increased subsequent to retirement by 50% of any increase in the pension benefits for the rank at which the member retired. In the event of the death of a retired participant, the benefit paid to a surviving spouse is reduced to 50% of the retiree's benefit. Presently, the City has only one nonactive employee who qualifies as a participant because of employment prior to July 1, 1971. The payroll for employees covered by the system was \$-0- and the City's total payroll for the police department was \$192,554.

The amount shown below as the Actuarial Accrued Liability is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the system's funding status on a going-concern basis, (2) assess progress being made in accumulating sufficient assets to pay benefits when due, and (3) allow for comparisons among public employee retirement plans. The net pension obligation was determined as part of an actuarial valuation of the plan as of July 1, 2007.

Net Pension Obligation

Retirees and Beneficiaries Currently Receiving Benefits	\$ 153,737
Net Assets Available for Benefits at Market.....	-

There were no current year member contributions. Eligible participants were required to contribute annually an amount equal to 1% of current annual salary, or approximately \$200 per year. The City has chosen to fund the plan on a pay-as-you-go basis under which contributions

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 8 - PENSION AND RETIREMENT FUND COMMITMENTS – (Continued)

to the plan above and beyond employee contributions are made at the same time and in the same amounts as benefit payments and expenses become due.

This method has been selected since no future entrants to the plan will occur because of the eligibility employment date. Presently, the total annual liability for pension benefits is approximately \$20,000 per year which the City feels can be funded on a pay-as-you-go basis through property tax levies since no funding of future benefits will be necessary due to a closed group situation which will result in no new participants.

The unfunded actuarial present value of credited projected benefits is \$153,737.

The unfunded actuarial present value of credited projected benefits is not recorded as a liability of the City. The City's contribution for the year was \$19,771 as required by the pay-as-you-go method of funding. This \$19,771 was paid by the City as required. The amount was not actuarially determined.

Three-year trend information is as follows:

	June 30, <u>2007</u>	June 30, <u>2006</u>	June 30, <u>2005</u>
Net assets available for benefits as a percentage of the net pension obligation applicable to the City's employees	0.00%	0.00%	0.33%
Unfunded net pension obligation as a percentage of the City's annual covered pay-roll	N/A	N/A	N/A
City's contributions to the pension plan as a percentage of annual covered payroll	N/A	N/A	N/A

This is a closed system with all active members retired. Taxes are levied to sufficiently compensate the retired members involved in this system.

Note 9 - RISK FINANCING

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the 2006-07 fiscal year the City has elected to purchase commercial insurance to cover against the risk of loss. There have been no settlements that exceeded insurance coverage during the last three fiscal years.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 10 - POSTCLOSURE COSTS

The City's landfill site has been closed since 1986 but state and federal laws and regulations require the City perform certain maintenance and monitoring functions at the site for 30 years after closure. The long-term postclosure costs recorded in the Solid Waste Utility of \$5,440 represents the estimated postclosure costs related to the landfill. These amounts are based on what it would cost to perform all postclosure care during the year ended June 30, 2007. Actual costs may be higher due to inflation, changes in technology, changes in regulations, or unexpected test results.

Note 11 - NOTES RECEIVABLE

In fiscal year 2002, the City advance Wee Care Child Care \$180,000 for improvements to leased portion of community center. The note bears interest at 5.85% with payments as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2008	\$ 6,526
2009	6,942
2010	7,359
2011	7,801
2012	8,251
2013-2017	49,410
2018-2022	66,153
Total Note Receivable	<u>\$ 152,442</u>

Note 12 - RELATED PARTY TRANSACTIONS

Hawarden Mercy Medical Clinic

Effective January 1, 2005, the Hospital and Mercy Medical Services entered into a joint venture whereby each partner has a 50% sponsorship interest in Hawarden Community Clinic, LLC. (HCC). The Hospital and MMS share equally in the net income (loss) of HCC. The Hospital's share of HCC's 2007 and 2006 (from January 1 through June 30) operating loss was \$40,674 and \$37,797, respectively, and is included in joint venture loss, net in the accompanying statements of revenue, expenses and changes in net assets.

The Hospital hires the employees of HCC and leases them back to HCC. Amounts received by the Hospital for expenses paid in 2007 and 2006 was \$301,915 and \$227,177, respectively, and is included in the accompanying statements of revenue, expenses and changes in net assets. The Hospital also received management fees from HCC totaling \$40,000 in 2007 and \$25,000 in 2006.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 12 - RELATED PARTY TRANSACTIONS – (Continued)

In addition, the Hospital receives monthly rent from the clinic with rental income totaling \$27,600 for the years ended June 30, 2007 and 2006, respectively, and is included in other revenue.

Mercy Accounts Payable includes amounts due Mercy Medical Services and Mercy Medical Center related to the Hospital's portion of financial support for the Hawarden Mercy Medical Clinic and other professional and management fees. Mercy accounts payable as of June 30, 2007 and 2006 is summarized as follows:

	<u>2007</u>	<u>2006</u>
Mercy Medical Services for share of Hawarden Mercy Medical Clinic operating support	\$ 91,858	\$ 206,297
Mercy Medical Center for professional and Management services	60,526	112,412
	<u>\$ 152,384</u>	<u>\$ 318,709</u>

Note 13 - RESERVES

The following schedule reflects all reservations of fund balances as presented in the fund level statements:

	<u>Prepaid Items</u>	<u>Debt Service</u>	<u>Endowments/ Library</u>	<u>Total</u>
General Fund	\$ 66,128			\$ 66,128
Debt Service		\$ 43,790		43,790
Permanent Fund				
Marie Gregg/Vipond Trust			\$ 159,370	159,370
Total Reserves of Fund Balances	<u>\$ 66,128</u>	<u>\$ 43,790</u>	<u>\$ 159,370</u>	<u>\$ 269,288</u>

Note 14 - LEASES WITH RELATED PARTIES

The Telephone Fund leases certain assets from the Electric Fund. The lease includes fiber optic cable and other assets associated with providing telecommunications utility. The lease provides for annual payments of \$145,354 with no set minimum lease term.

CITY OF HAWARDEN, IOWA
Notes to Financial Statements
June 30, 2007

Note 15 - DEFICIT FUND BALANCES

The City has one fund with a deficit fund balance at June 30, 2007. The City intends to finance this deficit from tax increment property taxes.

The fund deficits are as follows:

TIF	\$ 122,204
Heart of Hawarden Project.....	\$ 20,533

Note 16 - COMMITMENTS

The City has entered into a construction contract totaling \$299,305 for 2007 Street Improvements. As of June 30, 2007, no costs had been incurred on the project. The remaining \$299,305 will be paid as work on the project progresses.

CITY OF HAWARDEN, IOWA
Required Supplementary Information – Budgetary Reporting
June 30, 2007

Iowa Budget law requires the adoption of legal budgets for expenditures (expenses) on a program basis. The programs are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Although the budget document presents program expenditures (expenses) by fund, the legal level of control is at the aggregated program level, not at the fund level. For example, all budget categories of a particular fund may be exceeded so long as total budgeted program expenditures (expenses) are not exceeded on a "city-wide" basis. Program expenditures (expenses) required to be budgeted include expenditures for the general fund, special revenue funds, debt service fund, capital project funds, permanent fund, and proprietary fund types (including internal service). Legally adopted budgets may be prepared on a cash basis or on a basis consistent with U.S. generally accepted accounting principles.

The City follows these procedures in establishing the budget data reflected in the financial statement.

1. At least six weeks prior to March 15, the City Clerk submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 15, the budget is legally enacted through passage of a resolution.
4. Amendments to the budget are considered and reviewed throughout the fiscal year. Amendments are subject to departmental review and by justification to the City Clerk. The budget is formally amended by City Council resolution. Public hearings on budget amendments are conducted if the amendment is at the program level. The original budget plus subsequent amendments constitute the annual appropriated budget. There are no other appropriations of budget that occur. During the year, the budget was amended to increase expenditures as follows:

	Original Budget	5/23/07 Amendment	Amended Budget
Public Safety	\$ 513,162	-	\$ 513,162
Public Works	307,931	-	307,931
Health and Social Services	190,000	\$ 43,000	233,000
Culture and Recreation	408,066	-	408,066
Community and Economic Development	57,500	-	57,500
General Government	434,604	-	434,604
Debt Service	460,116	-	460,116
Capital Projects	390,750	262,700	653,450
Business Type Activities	10,626,704	-	10,626,704
Transfer Out	1,176,660	224,000	1,400,660

CITY OF HAWARDEN, IOWA
Required Supplementary Information – Budgetary Reporting
June 30, 2007

5. Legally adopted budgets are prepared on a program basis for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Project Funds and the Permanent Fund on a basis consistent with generally accepted accounting principles and reflect the annual appropriation resolutions adopted by the City Council.
6. Unexpended appropriations lapse at the end of each fiscal year.

Aggregation of Program Expenditures/Expenses for Governmental, Proprietary and Permanent Fund Types is shown on the next page to demonstrate legal compliance with budget:

CITY OF HAWARDEN, IOWA
Required Supplementary Information – Budgetary Reporting
June 30, 2007

	Governmental Fund Types	Proprietary Fund Types
Revenues:		
Taxes.....	\$ 894,813	-
Licenses and Permits	257	-
Intergovernmental	22,960	-
Charges for Services.....	662,004	-
Fines and Forfeits.....	197,372	\$ 5,623,803
Interest on Investments	14,599	-
Revenue from Use of Property.....	35,086	-
Special Assessments	29,551	-
Contributions	24,739	-
Reimbursements.....	74,935	200,642
Miscellaneous.....	500	-
Total Revenue	<u>1,956,816</u>	<u>5,824,445</u>
Expenditures:		
Public Safety	500,257	-
Public Works	307,195	-
Health and Social Services	238,350	-
Culture and Recreation	386,542	-
Community and Economic Development.....	57,030	-
General Government.....	107,483	-
Debt Service.....	512,152	-
Capital Projects	368,103	-
Business Type Activities	-	5,582,456
Total Expenditures/Expenses.....	<u>2,477,112</u>	<u>5,582,456</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(520,296)</u>	<u>241,989</u>
Other Financing Sources (Uses):		
Transfers from Other Funds	1,284,687	122,000
Bond Issuance.....	432,000	-
Capital Contributions	-	22,000
Proceeds from Asset Sales	1,727	-
Transfers to Other funds	(910,687)	(496,000)
Total Other Financing Sources (Uses)	<u>807,727</u>	<u>(352,000)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures/Expenses and Other (Uses)	287,431	(110,011)
Fund Balance/Retained Earnings at Beginning of Year	795,655	6,331,836
Fund Balance/Retained Earnings at End of Year	<u>\$ 1,083,086</u>	<u>\$ 6,221,825</u>

CITY OF HAWARDEN, IOWA
Required Supplementary Information – Budgetary Reporting
June 30, 2007

Primary Government Total	Hawarden Community Hospital	Reporting Entity Total	Adopted Budget	Variance Favorable (Unfavorable)
\$ 894,813	-	\$ 894,813	\$ 1,131,815	\$ (237,002)
257	-	257	2,900	(2,643)
22,960	-	22,960	19,875	3,085
662,004	\$ 235,318	897,322	422,077	475,245
5,821,175	4,741,844	10,563,019	11,888,848	(1,325,829)
14,599	-	14,599	-	14,599
35,086	48,317	83,403	-	83,403
29,551	-	29,551	-	29,551
24,739	-	24,739	-	24,739
275,577	26,209	301,786	48,705	253,081
500	-	500	29,446	(28,946)
<u>7,781,261</u>	<u>5,051,688</u>	<u>12,832,949</u>	<u>13,543,666</u>	<u>(710,717)</u>
500,257	-	500,257	513,162	12,905
307,195	-	307,195	307,931	736
238,350	-	238,350	233,000	(5,350)
386,542	-	386,542	408,066	21,524
57,030	-	57,030	57,500	470
107,483	-	107,483	434,604	327,121
512,152	-	512,152	653,450	141,298
368,103	-	368,103	460,116	92,013
5,582,456	4,661,498	10,243,954	10,626,704	382,750
<u>8,059,568</u>	<u>4,661,498</u>	<u>12,721,066</u>	<u>13,694,533</u>	<u>973,467</u>
<u>(278,307)</u>	<u>390,190</u>	<u>111,883</u>	<u>(150,867)</u>	<u>262,750</u>
1,406,687	-	1,406,687	1,400,660	6,027
432,000	-	432,000	-	432,000
22,000	-	22,000	-	22,000
1,727	-	1,727	70,000	(68,273)
(1,406,687)	-	(1,406,687)	(1,400,660)	(6,027)
<u>455,727</u>	<u>-</u>	<u>455,727</u>	<u>70,000</u>	<u>385,727</u>
177,420	390,190	567,610	(80,867)	648,477
7,127,491	2,057,559	9,185,050	9,185,050	-
<u>\$ 7,304,911</u>	<u>\$ 2,447,749</u>	<u>\$ 9,752,660</u>	<u>\$ 9,104,183</u>	<u>\$ 648,477</u>

CITY OF HAWARDEN, IOWA
COMBINING BALANCE SHEET
Governmental Nonmajor Funds
JUNE 30, 2007

	Special Revenue Funds			Capital Projects		
	Road Use Tax	Employee Benefit Levy	Local Option Sales Tax	Capital Improve- ment	Capital Project Community Center Project	Heart of Hawarden Project
Assets						
Cash and Pooled Investments	\$ 7,961	\$ 4,627	\$ -	\$ 15,281	\$ -	\$ -
Receivables (Net, where applicable, of allowance for uncollectibles)						
Taxes	-	2,545	-	-	-	-
Subsequent Year Taxes	-	120,788	-	-	-	-
Accrued Interest	-	-	-	-	-	-
Pledges Receivable	-	-	-	-	-	37,500
Due from Other Governmental Agencies	16,967	-	39,115	-	-	-
Restricted Assets:						
Donor Restricted Investments	-	-	-	-	-	-
Total Assets	24,928	127,960	39,115	15,281	-	37,500
Liabilities and Fund Balances						
Liabilities:						
Accounts Payable	-	-	-	-	-	450
Accounts Payable to Discretely Presented Component Unit	-	-	39,115	-	-	-
Due to Other Funds	-	-	-	-	-	35,083
Unearned Revenue	-	-	-	9,000	-	-
Deferred Revenue - Subsequent Year Taxes	-	120,788	-	-	-	22,500
Total Liabilities	-	120,788	39,115	9,000	-	58,033
Fund Balances:						
Reserved for:						
Library Endowment	-	-	-	-	-	-
Unreserved	24,928	7,172	-	6,281	-	(20,533)
Total Fund Balances	24,928	7,172	-	6,281	-	(20,533)
Total Liabilities and Equity	\$ 24,928	\$ 127,960	\$ 39,115	\$ 15,281	\$ -	\$ 37,500

Capital Projects						Permanent Fund	Total
Public Works Building Replacement	Capital Facilities Fund	Mapping	Contingency Fund	Public Works Shop	Low-Mod Income Project	Marie Gregg/Vipond Trust	Governmental Nonmajor Funds
\$ 116,196	\$ 49,139	\$ 53,107	\$ 109,938	\$ -	\$ 135,520	\$ 28,521	\$ 520,290
-	-	-	-	-	-	-	2,545
-	-	-	-	-	-	-	120,788
1,008	403	672	403	-	-	2,188	4,674
-	-	-	-	-	-	-	37,500
-	-	-	-	-	-	-	56,082
-	-	-	-	-	-	130,934	130,934
117,204	49,542	53,779	110,341	-	135,520	161,643	872,813
-	-	-	-	-	-	2,273	2,723
-	-	-	-	-	-	-	39,115
-	-	-	-	-	-	-	35,083
-	-	-	-	-	-	-	9,000
-	-	-	-	-	-	-	143,288
-	-	-	-	-	-	2,273	229,209
-	-	-	-	-	-	159,370	159,370
117,204	49,542	53,779	110,341	-	135,520	-	484,234
117,204	49,542	53,779	110,341	-	135,520	159,370	643,604
\$ 117,204	\$ 49,542	\$ 53,779	\$ 110,341	\$ -	\$ 135,520	\$ 161,643	\$ 872,813

CITY OF HAWARDEN, IOWA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Nonmajor Funds
JUNE 30, 2007

	Special Revenue Funds			Capital Projects		
	Road Use Tax	Employee Benefit Levy	Local Option Sales Tax	Capital Improve- ment	Capital Project Community Center Project	Heart of Hawarden Project
Revenue:						
Taxes	\$ -	\$ 121,883	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenue	207,339	-	238,350	-	-	-
Contributions	-	-	-	-	-	29,225
Refunds/Reimbursements	-	-	-	7,306	-	-
Interest	-	-	-	490	-	244
Miscellaneous	-	-	-	-	-	-
Total Revenue	207,339	121,883	238,350	7,796	-	29,469
Expenditures:						
Public Safety	-	19,771	-	-	-	-
Public Works	32,000	-	-	-	-	-
Health and Social Services	-	-	238,350	-	-	-
Culture and Recreation	-	-	-	-	-	-
Community and Economic Development	-	-	-	-	345	-
Capital Projects	-	-	-	307	-	125,457
Total Expenditures	32,000	19,771	238,350	307	345	125,457
Excess (deficiency) of revenues over expenditures	175,339	102,112	-	7,489	(345)	(95,988)
Other financing sources (uses):						
Transfers In	-	-	-	-	-	35,000
Transfers Out	(175,000)	(101,444)	-	(12,950)	-	-
Total other financing sources (uses)	(175,000)	(101,444)	-	(12,950)	-	35,000
Net Change in Fund Balance	339	668	-	(5,461)	(345)	(60,988)
Fund balances - beginning of year	24,589	6,504	-	11,742	345	40,455
Fund balances - end of year	\$ 24,928	\$ 7,172	\$ -	\$ 6,281	\$ -	\$ (20,533)

Capital Projects						Permanent Fund	Total
Public Works Building Replacement	Capital Facilities Fund	Mapping	Contingency Fund Project	Public Works Shop	Low-Mod Income Project	Marie Gregg/Vipond Trust	Governmental Nonmajor Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121,883
-	-	-	-	-	160,654	-	606,343
-	-	-	-	-	-	1,994	31,219
-	-	-	-	-	-	-	7,306
5,209	2,231	3,124	1,963	-	4,724	7,784	25,769
-	-	-	-	-	500	-	500
5,209	2,231	3,124	1,963	-	165,878	9,778	793,020
-	-	-	-	-	-	-	19,771
-	-	-	-	-	-	-	32,000
-	-	-	-	-	-	-	238,350
-	-	-	-	-	-	15,397	15,397
-	-	-	-	-	-	-	345
-	-	13,274	-	2,569	178,869	-	320,476
-	-	13,274	-	2,569	178,869	15,397	626,339
5,209	2,231	(10,150)	1,963	(2,569)	(12,991)	(5,619)	166,681
34,000	12,600	-	75,948	-	112,000	-	269,548
-	-	-	-	-	-	-	(289,394)
34,000	12,600	-	75,948	-	112,000	-	(19,846)
39,209	14,831	(10,150)	77,911	(2,569)	99,009	(5,619)	146,835
77,995	34,711	63,929	32,430	2,569	36,511	164,989	496,769
\$ 117,204	\$ 49,542	\$ 53,779	\$ 110,341	\$ -	\$ 135,520	\$ 159,370	\$ 643,604

CITY OF HAWARDEN, IOWA
COMBINING STATEMENT OF NET ASSETS
Fiduciary Funds
JUNE 30, 2007

	Pension Trust		Agency Funds		
	Fund				
	Police	Payroll	Flex	Community	
	Retirement Fund	Clearing	Spending	Projects	Total
ASSETS					
Cash and Cash Equivalents	\$ -	\$ 13,252	\$ 3,232	\$ 10,411	\$ 26,895
Accounts Receivable	-	-	-	-	-
Total Assets	<u>-</u>	<u>13,252</u>	<u>3,232</u>	<u>10,411</u>	<u>26,895</u>
LIABILITIES					
Accounts Payable	380	-	-	35	415
Due to Other Governments	553	13,252	3,232	10,376	27,413
Total Liabilities	<u>933</u>	<u>13,252</u>	<u>3,232</u>	<u>10,411</u>	<u>27,828</u>
NET ASSETS					
Unrestricted	(933)	-	-	-	(933)
Total Net Assets	<u>\$ (933)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (933)</u>

CITY OF HAWARDEN, IOWA
Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<u>PAYROLL CLEARING</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 7,820	\$ 1,596,776	\$ 1,591,344	\$ 13,252
Total Assets	7,820	1,596,776	1,591,344	13,252
<u>Liabilities</u>				
Due to Other Governments	7,820	1,596,776	1,591,344	13,252
Total Liabilities	7,820	1,596,776	1,591,344	13,252
<u>FLEX SPENDING</u>				
<u>Assets</u>				
Cash and Cash Equivalents	3,187	22,310	22,265	3,232
Total Assets	3,187	22,310	22,265	3,232
<u>Liabilities</u>				
Due to Other Governments	3,187	22,310	22,265	3,232
Total Liabilities	3,187	22,310	22,265	3,232
<u>COMMUNITY PROJECTS FUND</u>				
<u>Assets</u>				
Cash and Cash Equivalents	9,437	2,482	1,508	10,411
Accounts Receivable	2,500	-	2,500	-
Total Assets	11,937	2,482	4,008	10,411
<u>Liabilities</u>				
Accounts Payable	5,000	35	5,000	35
Due to Other Governments	6,937	7,482	4,043	10,376
Total Liabilities	11,937	7,482	4,043	10,411
<u>ALL AGENCY FUNDS TOTAL</u>				
<u>Assets</u>				
Cash and Cash Equivalents	20,444	1,621,568	1,615,117	26,895
Accounts Receivable	2,500	-	2,500	-
Total Assets	22,944	1,621,568	1,617,617	26,895
<u>Liabilities</u>				
Accounts Payable	5,000	35	5,000	35
Due to Other Governments	17,944	1,626,568	1,617,652	26,860
Total Liabilities	\$ 22,944	\$ 1,626,603	\$ 1,622,652	\$ 26,895

CITY OF HAWARDEN
Schedule of Findings
Year Ended June 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.
There were no prior year audit findings.

SIGNIFICANT DEFICIENCIES:

II-A-07 Financial Reporting

Observation – During the audit, we identified material amounts of receivables, payables and capital asset additions not recorded in the City's financial statements. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Recommendation – The City should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the City's financial statements.

Response – We will double check these in the future to avoid missing any receivables, payables or capital asset transactions.

Conclusion – Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

III-A-07 Certified Budget – Expenditures for the year ended June 30, 2007 exceeded amounts budgeted in the Health and Social Services function.

Recommendation – The budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Future budgets will be amended before expenditures are made as appropriate.

Conclusion – Response accepted.

III-B-07 Questionable Expenses – We noted no expenditures that we believe may constitute unlawful expenditures from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-C-07 Travel Expenses – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF HAWARDEN
Schedule of Findings
Year Ended June 30, 2007

III-D-07 Business Transactions – The following business transactions between the City and City officials and/or employees were noted during the year ended June 30, 2007.

<u>Name, Title and Business Connection</u>	<u>Transaction/Description</u>	<u>Amount</u>
Dennis Anderson, Spouse of Council-Person and owner of Anderson Construction	Various concrete projects	\$118,381
Willie Garret, Police officer and owner of A & W Lawn Care	Lawn treatments/landscaping	\$ 5,283
George Jacobs, Councilperson and Owner of Central Catering	Various catered meals	\$ 1,597

The transactions with Willie Garret occurred because there is no other source for lawn chemical applications in Hawarden and because he performed the different landscaping work related to several different improvements in the City. The total amount represents work done for several departments (e.g. Library, City) with different governing boards and appears reasonable. Each project done by Anderson Construction was awarded through the competitive bid process with the exception of several very small patching or repair projects, and appear proper. The transactions with Central Catering were immaterial in nature and appear appropriate.

III-E-07 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions.

III-F-07 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-07 Revenue Bonds – No violations of revenue bond resolutions were noted.

III-H-07 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

III-I-07 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Members of the City Council
City of Hawarden, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the CITY OF HAWARDEN, IOWA as of and for the year ended June 30, 2007, which collectively comprise the City of Hawarden, Iowa's basic financial statements and have issued our report thereon dated October 15, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the Hawarden Municipal Hospital, which statements reflect total assets of \$4,090,872 and total operating revenues of \$4,741,844 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for the Hawarden Municipal Hospital, is based solely on the report of the other auditors.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the City of Hawarden, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hawarden, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hawarden, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency and material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Hawarden, Iowa's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the City of Hawarden, Iowa's financial statements that is more than inconsequential will not be prevented or detected by the City of Hawarden, Iowa's internal control. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item II-A-07 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Hawarden, Iowa's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be a material weakness.

The City of Hawarden, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Hawarden, Iowa's responses and, accordingly, we express no opinion on them.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether the City of Hawarden, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

This report, a public record by law, is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

William & Company, P.C.
Certified Public Accountants

October 15, 2007